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Sales Programs of Nine Regional Supply Cooperatives



Abstract

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Sales techniques of nine regional farm supply cooperatives for feed, seed, fertilizer, and agricultural chemicals are the focus of this study. Wholesale and retail sales personnel are the most important factor for sales of all four farm supplies. Combining services and sales is a strong factor for future increases in cooperative sales.

Key words: regional cooperatives, sales techniques, feed, seed, fertilizer, agricultural chemicals

Preface

Poor economic conditions in the farm supply industry, combined with tough competition from large noncooperative firms, have required cooperatives to be increasingly astute marketers. Sales programs need to be evaluated to determine how they should be adjusted to remain effective. Suggestions in this study will help farm supply cooperatives develop more effective sales programs to fit their operations, their members, nonmembers in their trade area, and future competition.

This study focuses on regional supply cooperatives that purchase or manufacture farm supplies for sale at member- or regional-owned retail outlets. Marketing or sales programs of nine regional cooperatives are examined in four supply categories: feed, seed, fertilizer, and agricultural chemicals. The regionals are: Agway, Inc., Syracuse, N.Y.; CENEX, St. Paul, Minn.; Farmland Industries, Kansas City, Mo.; FCX, Inc., Raleigh, N.C.; Landmark, Inc., Columbus, Ohio; Land O'Lakes, Minneapolis, Minn.; MFA, Inc. Columbia, Mo.; Southern States Cooperative, Richmond, Va.; and Tennessee Farmers Cooperative, La Vergne, Tenn. These regionals, with more than 3,000 retail outlets and dealers or agents selling their farm supplies, represented more than 40 percent of total cooperative farm supply sales in 1982 in the four categories.

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Highlights

Four major farm supply commodities—feed, seed, fertilizer, and agricultural chemicals—present different promotional and sales technique problems. Services and sales personnel are considered important in the sales of all four farm supplies. Price is the most important consideration only for agricultural chemicals.

While little operating difference exists between cooperative and noncooperative firms selling farm supplies, regional cooperatives are strong or have an advantage in several areas. Sales programs of the nine regionals revealed several ways cooperatives can capitalize on their strengths or advantages. These sales strategies are to:

- Combine services and sales. Several cooperatives now offer special crop and management services. Three areas need management expertise if funding and resources are available:

- (1) Crop management—specialists trained in seed, fertilizer, and agricultural chemicals, as well as pest management and disease monitoring;
- (2) animal production and health management—specialists trained in feed, health products, dairy and production management; and
- (3) farm management—specialists trained from records and taxes to capital investments and estate planning.

- Charge for services. Demonstrate service value through increased yield, faster rate of gain and other methods. The farmer will see the value the service provides, and only farmers who desire the service pay for it.

- Provide information on new products such as personal computers and related software. This service could be developed in conjunction with providing management specialists. Personal computers and related software are one of the fastest growth areas in farming.

- Train retail and wholesale salespeople. Salespeople are extremely important, and periodic training on sales methods and product knowledge should be scheduled.

- Develop advertising programs that match successful competitor practices. Strong advertising programs are often necessary to inform farmers of existing and new cooperative services or products. Cooperative brands and generic advertising should be implemented among cooperatives in noncompeting areas and products.

Sales Programs of Nine Regional Supply Cooperatives [1-23]

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MAJOR COMMODITIES

✓ 1 [Agricultural services and supplies represent an increasingly important part of the farm supply market.] This market has grown significantly over the past 15 years, from \$39.5 billion in 1968 to \$133.0 billion in 1982. Cooperatives serve most farm supply markets with a full range of products. Farm supply cooperatives, although decreasing in number, have quadrupled their \$4.3 billion sales volume in 1971 to \$17.1 billion in 1981, or 20 percent of the total farm supply market.¹

Two main methods used for product sales are price and nonprice. Price, the most apparent form of product sales competition among firms, is easily compared. When more than one supplier serves a specific marketing area and market power is evenly distributed, prices tend to follow each other.

✓ 2 [Nonprice sales methods] become more important as a marketing strategy and are the focus of this analysis. Services, salespeople, advertising, and product research and development are some important nonprice methods used in farm supply sales covered in this study.

Feed

Historically, feed is the largest farm expenditure with total sales of \$17.4 billion in 1982. Cooperatives possessed 23 percent of U.S. feed mill capacity in 1981 and an 18.5-percent share of feed sales. The feed industry is a mix of large multi-plant and small single-plant firms. Economies of scale are

¹The total farm supply market includes agricultural chemicals, building materials, containers, farm machinery and equipment, feed, fertilizer, meats and groceries, petroleum products, seed, and other supplies.

achieved at a fairly small size, oriented to prevailing local market conditions. Integration in poultry and to some extent cattle and hog industries now precludes entry of feed manufacturing firms. This makes the remainder of the market quite competitive. The feed industry is often characterized as mature, with overcapacity in almost all regions and animal types.

The feed industry differs from seed, fertilizer, and agricultural chemicals, due to cyclical patterns of beef and pork production. These swings in production are reflected in the demand for livestock and poultry feed. Thus plant utilization rates may be highly variable over a period of several years.

The feed industry has undergone vast restructuring. The industry had large regional mills that used relatively cheap rail rates to ship feed. An accompanying decline in railroad services with increasing rates forced feed companies to decentralize and build smaller, more localized feed mills. This trend has continued but may evolve into regional feed mills specializing in premix manufacturing. A small firm can still enter by purchasing ingredients and mixing in grain and byproducts to formulate a complete feed.

Real or perceived differences exist between brand label feeds of major companies and lesser known brands. Advertising is used extensively in conjunction with sales representatives who travel to individual farms.

Research and development costs are high in this industry. Large pharmaceutical and chemical firms supply medications and micronutrients. Many cooperatives have their own feed research programs. However, through an interregional, Cooperative Research Farms (CRF), 19 regional members share the high cost of feed research. Six research farms under CRF direction are used to improve the efficiency of livestock production through good nutrition, genetic comparisons, and better management.

Seed

Seed was a \$3.8 billion industry in 1982. Cooperative dollar volume market share has been trending downward the past two decades. Cooperatives in 1981 had a 14.5-percent market share. The industry comprises numerous small firms, which tend to concentrate on geographically specialized varieties, and a few large seed companies.

A number of changes in the seed industry followed implementation of the Plant Variety Protection Act of 1970. This act allows firms to patent proprietary varieties to protect their research costs. With expected increased

profits through the use of patents, multinational chemical and pharmaceutical companies have become increasingly involved, acquiring a number of small seed companies.

Entry barriers will remain low in this industry as long as public funding of seed research continues. Release of varieties to the public by universities and State experiment stations allows small seed firms to continue offering new varieties.

The seed industry differs from feed, fertilizer, and agricultural chemicals, because seed maturity and other characteristics must match the geographic planting zone. This necessitates ongoing research in dispersed testing plots rather than in a central complex. A long-term commitment is needed for seed research, often 10 years from initial development to final market. Several cooperatives are individually involved in seed research. But a group of cooperatives are member-owners of FFR Cooperative, an interregional cooperative devoted to seed research and development. FFR and its members support seed research in six locations.

A wide variance exists in advertising among seed companies and products because of their differing levels of profitability. Hybrid seed corn, a high-margin item commanding a profit of \$10 to \$15 per bag, is much more heavily advertised than soybeans, which generate a profit of around 50 cents per bag. Sales promotions often are based on strip tests where farmers can observe stands and yields of the individual variety.

Fertilizer

For this study, the fertilizer industry consists of three major submarkets: nitrogen, phosphorous, and potash. Farmers spent \$9.7 billion for fertilizer in 1982. Cooperatives had a significant market share of sales, with a 36-percent share in 1981.

Dramatic shortages occurred in the early 1970's, followed by the present oversupply. Fertilizer prices, however, increased in conjunction with rises in energy prices. Nitrogen prices were affected most by energy price increases because nitrogen is derived from ammonia produced from natural gas. More than 50 U.S. firms and others in Canada and Mexico supply nitrogen. Nitrogen production technology is fairly uncomplicated, allowing easy entry into this industry.

Fewer than 30 major firms produce phosphates. Recent oversupply in the industry has caused lower margins and allowed easier entry.

Potash deposits are concentrated in the Southwestern United States, mined by fewer than a dozen domestic producers. The industry is hard to enter without controlling some potash deposits. Production of potash is growing in Canada, although the government has been somewhat restrictive in the control of natural resources.

The fertilizer industry has a significant number of manufacturers that have integrated forward to sell fertilizer at retail. Large increases in fertilizer usage have occurred, with rates of application trending upward. The industry has changed from sales in bags to sales in bulk form.

Research costs are not as large as in some other industries. The basic product has been in existence for a number of years. Rates of application and combinations with other nutrients have caused some changes. A shift to super (concentrated) fertilizer has taken place. Blending bulk fertilizer to suit individual farmers' needs is one of the more recent evolutions.

With the product basically generic, advertising by one firm helps all firms. For this reason, fertilizer is often sold in conjunction with services such as delivery and application.

Several regional cooperatives have interests in producing one or more of the three major fertilizers. CF Industries is an interregional cooperative that supplies fertilizer to its 14 domestic and 2 Canadian member regionals.

Agricultural Chemicals

Agricultural chemical usage has been trending upward. Sales were \$3.6 billion in 1982. Cooperatives' share in 1981 was 33.9 percent. The agricultural chemical manufacturing industry is composed of a small number of large firms deeply involved in product research. New products, protected by patents, can have rapid sales growth and generate enormous profit. The industry is dominated by a combination of domestic firms and several foreign firms that have products with significant market shares.

The agricultural chemicals in this study fit into three classifications: herbicides, insecticides, and fungicides. Product lines and market shares can change from year to year due to several factors: (1) buildup of plant and insect resistance; (2) development of new products; and (3) removal of chemicals determined environmentally harmful.

Research and development costs are major barriers to entering the industry. Developing, testing, and gaining approval for a new chemical can cost \$15

million to \$20 million. Each new agricultural chemical must be proved environmentally safe before it can be released for marketing, a process that is costly and time consuming. The time period from development to marketing is frequently 10 or more years. Patents protect new chemicals and their close substitutes from direct competition by other chemical companies.

Agricultural chemical firms have not significantly integrated into wholesaling and retailing. Their products are most often sold by dealers that may carry the product lines of several companies. Demand for a number of these chemicals is considered inelastic and allows high profit margins. Agricultural chemical sales are very seasonal, often subject to intensive seasonal advertising programs.

Cooperatives are not as basic in agricultural chemicals as they are in the other three farm supplies. Several regionals do manufacture chemicals, usually products having expired patents. Regional cooperatives' main involvement with agricultural chemicals is at the wholesale and retail sales levels.

COOPERATIVE OPERATIONS

Of the nine regional supply cooperatives participating in this study, four are federated, four mixed, and one centralized. Seven provided information for feed and agricultural chemicals; eight for seed; and nine for fertilizer.

Sales of Farm Supplies

All participants sold complete feed, feed supplements, and premixes. Five regionals' feed sales are trending upward while two are down or steady. The trend is to wider use of premixes. Almost half of the regional retail outlets can make formula feed.

Seed sales are increasing for six regionals and steady for two. All eight sold forage, feed grain and oilseed seeds, and several sold commercial vegetable seed. Nearly 90 percent are basic in one or more of the seeds mentioned, and several have memberships in an interregional cooperative devoted to seed research.

Fertilizer sales are trending upward for five regional cooperatives, down for three, and steady for one. All but two sell dry, gaseous, and liquid fertilizers. Six have fertilizer blending facilities in most of their retail outlets. Most are

basic in fertilizer production because they are members of a fertilizer manufacturing interregional cooperative.

In agricultural chemicals, sales are increasing for six regional cooperatives and steady for one. All seven sell fungicides, herbicides, and insecticides. These regionals usually are not basic in the manufacture of agricultural chemicals, obtaining their supply from noncooperative sources.

Related Services

Cooperatives often provide related services in conjunction with farm input sales. Important services include farm delivery, provision of equipment, and technical advice.

Feed Farm delivery of both bag and bulk feed is provided by seven regional cooperatives. Five have a direct charge for delivery, with the remainder of these either having a minimum purchase, no charge on delivery; a minimum purchase and an additional charge; or no charge, no minimum for delivery.

Most of these regionals offer other services in addition to feed delivery (table 1).

Twenty-three feed research scientists employed by the seven regionals usually remain in a central office or facility. These cooperatives have 258 field representatives who work closely with the scientists and make onfarm visits and recommendations. Field staff members are trained in animal production and management. They make recommendations from least cost formulations to animal health. Several regionals are using the field representatives in conjunction with the advice and/or sales of personal

Table 1—Services offered in conjunction with feed sales

Services	Number of regionals offering
Onfarm custom grinding	3
Grain bank	6
Consulting	6
Forage testing	7
Quality control (samples)	7
Animal health	7
Least cost formulation	6

computers and related software. These field representatives explain how the computer can be used by each individual's farm operations.

Special services are often provided for contract or integrated animal production feed sales. They range from consulting to making feed formulation recommendations. Contractual sales are offered by 71 percent of the regionals, representing between 2 and 30 percent of their feed sales. All contracts are for 1 year or less, with 60 percent having a fixed price specified in the contract. Integrated animal production facilities are operated by 29 percent of these cooperatives, providing an outlet for up to 30 percent of their total feed sales.

Seed In only 13 instances do regionals directly charge for delivery and other special services associated with the sale of seed (table 2). This practice contrasts the seed industry to the fertilizer and agricultural chemical industries.

Several cooperatives combine services with sales by using crop management specialists. Differences among cooperatives show up on how specialists are used and whether a direct charge is levied for their services. These specialists often work at the local level, serving several retail outlets. Specialists can provide expanded assistance to farmers if a per-acre consulting fee is used as a direct charge. Their value to the farmer can be measured through higher yields per acre or lower losses to pests.

Table 2—Services offered and type of service charge for seed

Service	Direct charge	Minimum purchase, no charge	Minimum purchase, additional charge	No charge
<i>Number of regionals</i>				
Delivery—bag	1	2	1	3
Delivery—bulk	1	1	1	2
Variety selection				3
Soil tests	2	1	1	1
Infrared photos	2			
Disease monitoring	2			1
Irrigation scheduling	2			
Crop records	1	1		3
Crop management specialist	2			2
Total	13	5	3	15

Some regionals sell personal computers and/or offer advice in computerized management and recordkeeping for farmers. Crop management specialists provide similar services as the aforementioned field representatives in feed sales. These specialists are in one of the more dynamic areas in agriculture. In the future, expanded dissemination of computerized information to farms tied with crop and other management services may be critical to a strong market presence in farm supply sales as well as farm product marketing.

Fertilizer Regionals usually charge directly for special services offered in conjunction with fertilizer sales (table 3). Most services that involve

Table 3—Services offered and type of service charge for fertilizer

Service	Direct charge	Minimum purchase, no charge	Minimum purchase, additional charge	No charge
<i>Number of regionals</i>				
Delivery:				
dry, bag	4	1	1	
dry, bulk	7		2	
gaseous	6			
liquid	7		1	
Custom application:				
dry, bag	¹ 0			
dry, bulk	6		1	
gaseous	5		1	
liquid	6		1	
Tool bars	5			
Nurse tanks	6		1	
3- to 5-ton spreaders	7		1	
10-ton flotation spreader trucks	6			
Soil testing	3	3		1
Field mapping	1	2		4
Fertilizer recommendations				6
Infrared photography	2			
Farm records/management/ planning	1	1		3
Crop management specialists	1			3
Total	73	7	9	17

¹No observations.

delivery or use of a cooperative's equipment have a direct charge, while information or consulting services are often offered without charge.

Agricultural Chemicals Service charge practices for agricultural chemicals are similar to those for fertilizer (table 4). Again, information or consulting services are usually offered without charge. No services are offered for a minimum purchase with an additional charge.

Retail Outlets

The number and type of outlets used by regional cooperatives vary among the four product groupings (table 5). Feed, with the smallest number of

Table 4—Services offered and type of service charge for agricultural chemicals

Service	Direct charge	Minimum purchase, no charge	Minimum purchase, additional charge	No charge
<i>Number of regionals</i>				
Delivery:				
fungicides	1	3		3
herbicides	1	3		3
insecticides	1	3		3
Custom application:				
fungicides	6			
herbicides	6			
insecticides	6			
Portable boom sprayers	5			
Tank truck (flotation with boom sprayer)	6			
Four-wheel-drive truck with sprayer	5	1		
Hi-boy sprayer	5	1		
Airplane, helicopter sprayers	2	1		
Monitor for disease infestation	2	1		1
Infrared photography	2			1
Agricultural chemicals recommendations	1			4
Crop management specialist	1			3
Total	50	13	0	18

Table 5—Number of sales outlets

Outlet type	Feed	Seed	Fertilizer	Agricultural chemicals
<i>Number of outlets</i>				
Regional owned	98	590	495	511
Member local owned	980	2,092	2,805	2,216
Nonmember, noncooperative	274	—	246	205
Dealers	—	430	25	—
Other	450	35	—	—
Total	1,802	3,147	3,571	2,932

— = not applicable.

outlets, reflects the number of regionals that provided information. Not all outlets sell all four products, which explains the variance in number of outlets used. A large number of outlets are used for all four products that are not cooperatives. The use of nonmembers, dealers, and other outlets may indicate future expansion into new territories or an industry practice such as the use of dealers in seed. It could also reflect cooperatives' products desired by farmers in areas where they could not be purchased from a cooperative outlet. Cooperative seed is not sold through nonmember outlets. Nonmember outlets may sell other cooperative supplies but do not sell cooperative seed, because cooperatives do not have a large market presence in brand label seed.

Sales Personnel

Sales personnel, whether traveling from a regional base or a retail outlet, are perhaps the most important sales tool. Feed departments employed the most salespeople with 473, while seed had the fewest, with 101 (table 6). Fertilizer and agricultural chemical departments both employed almost 400 salespeople.

Historically, cooperatives have not favored incentives to encourage sales performance. Compensation to cooperative salespeople is generally in the form of straight salaries, in contrast to noncooperative competitors who often use bonuses and commissions. While this difference is diminishing, a purely commission-based salary is still not offered by these cooperatives (table 7). A salary with some form of incentive is used in fertilizer and agricultural chemicals more than 50 percent of the time. In feed, with the most salespeople, a straight salary is most common.

Table 6—Traveling sales personnel employed for wholesale and retail sales

Base of operation for travel	Feed	Seed	Fertilizer	Agricultural chemicals
<i>Number of salepeople</i>				
From the regional:				
Wholesale	182	80	162	189
Retail	33	11	54	50
From retail outlets:				
Wholesale	7	—	—	26
Retail	251	10	181	118
Total	473	101	397	383

— = not applicable.

Table 7—Type of compensation for wholesale and retail traveling salespeople and regional sales managers

Employee	Compensation	Feed	Seed	Ferti- lizer	Agricul- tural chemicals
<i>Number of regionals</i>					
Traveling sales- people based out of the regional	Straight salary	4	6	2	3
	Straight commission	0	0	0	0
	Salary plus commission	2	0	1	0
	Salary plus bonus	1	0	1	3
Traveling sales- people based out of retail outlets (employed by regional)	Straight salary	3	1	1	3
	Straight commission	0	0	0	0
	Salary plus commission	2	2	0	2
	Salary plus bonus	0	1	1	3
Sales manager (employed by regional)	Straight salary	4	3	2	3
	Straight commission	0	0	0	0
	Salary plus commission	1	0	1	0
	Salary plus bonus	1	1	2	3
Total	Straight salary	11	10	5	9
	Straight commission	0	0	0	0
	Salary plus commission	5	2	2	2
	Salary plus bonus	2	2	4	9

Providing an auto and expenses were the most common additional benefits offered salespeople (table 8). Benefits were similar among the four product groups.

In addition, a number of retail outlets employed their own salespeople (table 9). It is not known what amount of time these people spend on sales calls. As with regional salespeople, there is some double counting. This is especially true for seed, fertilizer, and agricultural chemical salespeople, because they often sell a package that may include part of or all three products.

All nine regionals provide some form of training for their traveling salespeople and for salespeople employed at the retail level in outlets. By combining resources to offer common sales or refresher courses, the regional is more able to provide training.

In feed, training offered by regionals includes technical information and training on product lines; feed and sales schools taught according to animal species; and in-house training from animal nutrition to merchandising techniques.

Seed training offered for salespeople ranges from field days viewing new products at various growth stages to traveling product managers providing training at each retail outlet.

Regional fertilizer training for salespeople includes sessions using company staff, industry and university personnel, and yearly sessions for both sales training and product knowledge.

Table 8—Additional compensation or benefits for traveling salespeople

Benefit	Feed	Seed	Fertilizer	Agricultural chemicals
<i>Number of regionals</i>				
Auto	6	7	5	5
Expenses	6	8	6	5
Mileage on personal vehicle	3	2	—	—
Credit card	1	—	1	2
Trips	2	1	1	3

— = not applicable.

Table 9—Cooperative retail outlets that employ their own traveling salespeople and number of salespeople

Outlet and salespeople	Feed	Seed	Fertilizer	Agricultural chemicals
	<i>Number</i>			
Retail outlets	155	197	n/a	1,910
Traveling salespeople	315	640	1,126	2,478

n/a = not available.

Knowledge of product safety and agricultural chemicals is used in training sessions for salespeople, while suppliers/manufacturers also provide training, including pest management.

Inventory Management Assistance

Several methods are used to encourage fertilizer movement from wholesale to retail outlets (table 10). If the regional (other than centralized) did not offer some incentive to move inventory to retail outlets, most products would be ordered on an as needed basis, with resulting delays. Inventory financing and price protection (from price declines) are used most often. A bookkeeping program is particularly important in seed sales because some varieties lose their vigor after they are stored one season.

Once supplies are at the retail level, most regionals assist with inventory control and timely ordering. Four regionals offer some form of inventory assistance for feed, seven for seed and agricultural chemicals, and nine for fertilizer. Feed assistance includes inventory management, account management, and computer processing of order forms. Seed assistance includes early-order programs, return seed programs, and computer booking programs. Fertilizer assistance includes market monitoring to determine the best purchase time for outlets, inventory financing, and use of sales staff reports to determine local demand. Agricultural chemicals assistance includes weekly call service with 24-hour delivery, and early order with discount—20-percent return allowed at end of season.

Due to seasonality in sales of three of the four farm supplies, some method of moving inventories of seed, fertilizer, and agricultural chemicals from outlet to outlet may be necessary. Feed inventories are not moved routinely so they do not warrant further discussion. Assistance or movement is provided by five regionals for seed, seven for fertilizer, and six for

Table 10—Methods used to expedite movement of farm supplies from wholesale to retail

Methods	Feed	Seed	Ferti- lizer	Agricultural chemicals
<i>Number of regionals</i>				
Inventory financing	n/a	3	7	7
Inventory price protection	n/a	7	7	5
Forward contracting at a set price	n/a	4	4	2
Bookkeeping program	n/a	5	0	3

n/a = not available.

agricultural chemicals. Assistance in moving seed, fertilizer, and agricultural chemicals usually comes through weekly reports by salespeople and retail outlet staff listing long and short inventory positions. The regional can then divert rail cars or trucks to outlets with short inventories.

Retail Pricing, Financing, and Services

Several important factors influence farmers' retail buying decisions. First and foremost is quality of the product. Price is always important, but financing and other related services often are more important to the farmer (table 11, 12). Only with agricultural chemicals is price considered highly important. Agricultural chemicals are branded and offered for sale by both cooperative and noncooperative outlets. For this reason, differences are only in price. Dependable and on-time services are the most important activities for fertilizer and seed sales. This is especially true for fertilizer where purchases are often in conjunction with a retail outlet providing custom application or some form of applicator (spreader, tool bar).

Quantity Discounts

Fair treatment is a concern in farm supply sales. Although cooperative principles require equal treatment for all farmers, competitors are increasingly catering to large farmers by offering quantity discounts, often taking sales from cooperatives. Quantity discounts on feed offered by regionals ranged from 1 to 10 percent, with an average of 4 percent. Seed discounts ranged from 1 to 16 percent, with a 7.5-percent average (excluding soybeans); fertilizer discounts ranged from 0 to 10 percent, with a 5-percent average; agricultural chemical discounts ranged from one-half to 8 percent, with a 3-percent average. The size of one-time purchases and

Table 11—Importance of pricing, financing, and services as a retail marketing strategy for feed and seed

Strategy	Feed			Seed		
	Highly	Moderate	Little	Highly	Moderate	Little
<i>Number of regionals</i>						
Price, price assurance	2	4	1	3	4	
Financing	n/a				4	2
Services:						
Dependable	n/a			5	2	
On time	n/a			4	1	1
Enough equipment	n/a			3	2	1

n/a = not available.

Table 12—Importance of pricing, financing, and services as a retail marketing strategy for fertilizer and agricultural chemicals

Strategy	Fertilizer			Agricultural chemicals		
	Highly	Moderate	Little	Highly	Moderate	Little
<i>Number of regionals</i>						
Price, price assurance	5	4		7		
Financing	2	4	3	2	5	
Services:						
Dependable	8	1		4	3	
On time	9			2	4	
Enough equipment	8	1		1	5	

cash payments are the most common reasons for qualifying for a discount (table 13), although discounts are not that widespread.

Patronage Refunds

Patronage refunds are paid on the basis of total business volume or individual products. Refunds paid by individual products can help promote sales. Four regionals paid refunds specifically on feed. But the majority of the regionals paid refunds only on total business volume including the other three products—five for both seed and agricultural chemicals, and six for

Table 13—Reasons for giving quantity discounts

Farm supply type of sale	Reason for discount					
	Size of one-time purchase	Size of annual purchases	Cash payment	Entire needs purchased from one source	Seasonal incentive	No discounts offered
<i>Number of regionals</i>						
Feed:						
Regional to retail outlets	4		4			2
Retail outlet to farmers	4	2	2			1
Regional to farmers	2	2				2
Seed:						
Regional to retail outlets	6	3	3	1	3	
Retail outlet to farmers	4	1	5		2	
Regional to farmers						4
Fertilizer:						
Regional to retail outlets	1			1		8
Retail outlet to farmers	3	4	5			
Regional to farmers						7
Agricultural chemicals:						
Regional to retail outlets	4	2	2		2	4
Retail outlet to farmers	1		1			
Regional to farmers						5

fertilizer. Organizational structure is important because a large proportion of the regionals have seed, fertilizer, and agricultural chemicals in one division or sales area.

Prices for cooperative products may reflect future patronage refunds, but farmers' perception of the value of those refunds is debatable. Concurring with several recent studies, regionals feel it is wiser to offer a price reflecting the market rather than a higher price with expected patronage refunds (table 14).

Competitive Behavior

In determining their sales programs and policies, cooperatives must analyze competitors' sales strategies and predict their reactions. To see if certain policies caused problems, the nine regionals were presented with three competitor pricing strategies: selective undercutting, in-and-out presence,

Table 14—Regionals' strategies to maintain or increase sales

Strategy	Feed	Seed	Fertilizer	Agricultural chemicals
<i>Number of regionals</i>				
Price at the market and distribute savings as patronage refunds	6	5	8	7
Price under the market with no patronage refunds		3		
Price over the market where the opportunity presents itself				1
Pay more than 20 percent refunds in cash	1	1		

Table 15—Problems caused by competitor pricing policies

Problems	Feed	Seed	Fertilizer	Agricultural chemicals
<i>Number of regionals</i>				
Selective undercutting	5	6	6	6
In-and-out presence	2	2	5	1
Discounts and other incentives to large-volume purchasers	2	1	3	5
Other		1		1

and discounts (table 15). Selective undercutting, when a competitor offers a lower price on a specific product or for a whole product line, causes concern for all four farm supplies. In-and-out presence is considered a problem in fertilizer when a competitor might bring in a carload or bargeload of fertilizer for a one-time sale. Discounts and other incentives are a problem in agricultural chemical sales. To combat the three specific competitor strategies, these regionals are trying to compete on more than a price basis by combining product sales with offering additional services.

In most cases, the nine regionals responded to competitors' actions (table 16). However, their response didn't necessarily follow competitors' actions. Each market and competitor situation should be assessed to determine the proper response, which could be a combination of price, services, and advertising.

Table 16—Response to competitors' pricing policies

Necessary to respond or follow a competitor's price change	Feed	Seed	Fertilizer	Agricultural chemicals
<i>Number of regionals</i>				
Usually	n/a	3	2	4
Sometimes	n/a	5	5	3
Seldom	n/a		1	

n/a = not available.

Table 17—Importance of wholesale or retail sales activities of regional cooperatives, ranked from 1" (most important) to 10" (least important)

Activity	Feed	Seed	Ferti- lizer	Agricultural chemicals	Average
<i>Rank</i>					
Product distribution, availability	4	2	1	2	2.3
Product quality	1	1	4	5	2.8
Service, technical service	3	5	2	3	3.3
Sales force	2	4	5	4	3.8
Product pricing	9	3	3	1	4.0
Retail operation, outlet location	5	7	6	6	6.0
Product innovation	6	6	9	10	7.8
Market research, long-range planning	8	9	7	8	8.0
Advertising	7	8	10	9	8.5
Credit	10	10	8	7	8.8

Regionals ranked 10 factors according to their impact on sales (table 17). Product distribution, quality, service, and sales force consistently were rated most important. The finding that service and quality ranked as important as price concurs with several recent studies conducted or funded by ACS [1,3,5].

In both feed and seed, the most important factor was providing a quality product. The strength of the sales force and the provision of special services were rated highly. Product pricing for feed was of low importance. For fertilizer and agricultural chemicals, product distribution, service, and pricing (though not in the same order) were the most important.

Promotional Techniques

A number of methods or techniques are available to promote sales in each of the four farm supplies. Regionals ranked sales personnel first out of 18 promotional tools or methods in terms of their effectiveness in stimulating sales (tables 18 and 19). For feed, retail sales personnel, sale pricing, and displays by retail outlets are most effective. For seed, retail sales personnel, direct mail, wholesale sales personnel, cooperative magazine and brochures are most effective. For both fertilizer and agricultural chemicals, retail and wholesale sales personnel are most effective.

Promotional items or methods can involve large expenditures for the regional and its outlets. In most cases for feed, seed, and fertilizer, the

Table 18—Effectiveness of promotional techniques for feed and seed¹

Feed		Seed	
1	Retail sales personnel	1	Retail sales personnel
2	Sale pricing	2	Direct mail
3	Displays by retail outlets	3	Wholesale sales personnel
4	Farm magazines	3	Your own cooperative magazine, newsletter
4	Wholesale sales personnel	3	Program brochures, guides
4	Program brochures, guides	4	Quantity discounts
5	TV	4	Displays by retail outlets
6	Quantity discounts	4	Radio
6	Your own cooperative magazine, newsletter	4	TV
7	Special fliers describing new products, sales	4	Farm magazines
7	Direct mail	4	Special fliers describing new products, sales
8	Radio	5	Newspapers
9	Gifts (for purchasing required products)	5	Trips
10	Trips	6	Sale pricing
11	Newspapers	7	Trade magazines
12	Billboards	8	Billboards
—	Trade magazines ²	9	Gifts (for purchasing required products)
—	Other magazines ²	—	Other magazines ²

¹When ties are involved in ranking, no differentiation is made between the promotional techniques.

²Two or fewer observations, so not ranked.

Table 19—Effectiveness of promotional techniques for fertilizer and agricultural chemicals¹

Fertilizer		Agricultural chemicals	
1	Retail sales personnel	1	Retail sales personnel
2	Wholesale sales personnel	2	Wholesale sales personnel
3	Quantity discounts	3	Direct mail
3	Special fliers describing new products, sales	4	Farm magazines
4	Your own cooperative maga- zine, newsletter	4	Radio
5	TV	5	Quantity discounts
5	Direct mail	5	Program brochures, guides
6	Newspapers	6	Newspapers
7	Displays by retail outlets	6	Trade magazines
7	Program brochures, guides	7	Your own cooperative maga- zine, newsletter
8	Sale pricing	7	Sale pricing
9	Farm magazines	7	Special fliers describing new products, sales
9	Radio	8	Displays by retail outlets
9	Trips	—	Other magazines ²
10	Gifts (for purchasing required products)	—	TV ²
11	Trade magazines	—	Billboards ²
12	Billboards	—	Gifts (for purchasing required products) ²
—	Other magazines ²	—	Trips ²

¹When ties are involved in ranking, no differentiation is made between the promotional techniques.

²Two or fewer observations, so not ranked.

regional cooperative develops and pays for all promotional activities, except retail salespersons' salaries. In agricultural chemicals, the responses were somewhat different with the manufacturer often developing and paying some proportion of the promotion.

Several regionals assist their retail outlets in developing their own advertising programs. They provide examples the retail outlets can use in local newspapers or fliers. Assistance is given in writing radio ads, where the retail outlet needs only to add sale date and outlet location.

The sales promotion budget as a percentage of each farm supply sale is less than 5 percent for all four products. For feed, one-half to 3 percent of the dollar value of sales is used for promotion, with an average of 1.1 percent. For the other three products, ranges and averages are: seed 1 to 2-1/2 percent, average 1 percent; fertilizer 0.01 to 2 percent, average 0.6 percent;

Table 20—Regionals' ranking of promotional techniques competitors use, feed and seed¹

Feed		Seed	
1	Farm magazines (4) ²	1	Program brochures, guides (3) ²
1	Newspapers (11)	2	Radio (4)
1	Special fliers describing new products, sales (7)	3	Newspapers (5)
1	Program brochures, guides (4)	4	Wholesale sales personnel (3)
2	Wholesale sales personnel (4)	5	Quantity discounts (4)
3	Radio (8)	6	Farm magazines (4)
4	Retail sales personnel (1)	7	Trade magazines (7)
4	Quantity discounts (6)	8	Special fliers describing new products, sales (4)
4	Direct mail (7)	9	Billboards (8)
5	Special services	10	Displays by retail outlets (4)
6	Displays by retail outlets (3)	11	Direct mail (2)
7	Gifts (for purchasing required products) (9)	11	Television (4)
8	Billboards (12)	12	Sale pricing (6)
9	Sale pricing (2)	13	Retail sales personnel (1)
10	Television (5)	14	Gifts (for purchasing required products) (9)
11	Trips (10)	15	Trips (5)
12	Trade magazines	16	Other magazines
13	Other magazines	17	Special services

¹When ties are involved in ranking, no differentiation is made between the promotional techniques.

²Number in parentheses corresponds to perceived cooperative effectiveness of promotional techniques, from tables 18 and 19.

agricultural chemicals 0.001 to 1 percent, average 0.25 percent. Feed is the most heavily promoted farm supply as a percentage of sales. The small amount spent on promotion of agricultural chemicals reflects that most product promotion is done by the manufacturer.

In some product areas, cooperatives are at a distinct disadvantage to national or local competitors with name brand recognition. A generic cooperative label and common advertising could be useful in developing brand recognition in these four product areas. With a generic brand, cooperatives could share the cost of increased advertising in farm magazines, radio, and television.

Promotional techniques competitors most often use (tables 20 and 21) are similar to those the regionals use. The more effective techniques are

Table 21 — Regionals' ranking of promotional techniques competitors use, fertilizer and agricultural chemicals ¹

Fertilizer		Agricultural chemicals	
1	Farm magazines (9) ²	1	Wholesale sales personnel (2)
1	Program brochures, guides (7)	2	Newspapers (6)
2	Special fliers describing new products, sales (3)	3	Direct mail (3)
2	Trade magazines (11)	4	Quantity discounts (5)
3	Displays by retail outlets (7)	5	Program brochures, guides (5)
4	Newspapers (6)	6	Retail sales personnel (1)
5	Sale pricing (8)	6	Trade magazines (6)
6	Wholesale sales personnel (2)	7	Sale pricing (7)
7	Quantity discounts (3)	8	Special fliers describing new products, sales (7)
8	Direct mail (5)	8	Gifts (for purchasing required products)
9	Gifts (for purchasing required products) (10)	8	Trips
10	Radio	9	Farm magazines (4)
10	Trips	9	Radio (4)
11	Other magazines	9	Displays by retail outlets (8)
12	Retail sales personnel (1)	10	Television
13	Billboards (12)	10	Other magazines
14	Special services	10	Special services
15	Television (5)	11	Billboards

¹When ties are involved in ranking, no differentiation is made between the promotional techniques.

²Number in parentheses corresponds to perceived cooperative effectiveness of promotional techniques, from tables 18 and 19.

similar, with the biggest difference showing up on the value of retail sales personnel. Regionals view competitors as relying less on retail sales personnel with their importance 4th for feed, 13th for seed, 12th for fertilizer, and 6th for agricultural chemicals. Regionals ranked the effectiveness of retail sales personnel much higher.

The regionals also feel the most effective promotional techniques competitors use for feed are farm magazines, gifts, retail and wholesale sales personnel, and the least effective are billboards. For seed the most effective are farm magazines and wholesale sales personnel. In fertilizer, the most effective techniques are farm magazines and retail sales personnel and the least effective are direct mail, gifts, and trips. In agricultural chemicals, the most effective are wholesale sales personnel and quantity discounts, and the least effective are billboards and television.

The nine regionals expressed interest in promotional techniques they would like to use if funds were available. For all four products, they would like to use more advertising, especially television and magazines. In addition, the regionals would like to use more retail, wholesale, and traveling sales personnel; sell more brand name products; and offer incentives to sales personnel.

Assessment of Changing Competitor Strategies

The regionals reported competitors' sales strategies in recent years have changed in the following ways:

Feed (1) Much more aggressive sales and price effort; and
(2) concentration on catering to large farmers.

Seed (1) More use of fliers, television, and newspapers; and
(2) continued trend toward setting up a large grower/farmer as a seed dealer.

Fertilizer (1) More price competition; and (2) increased use of direct sales to large farmers.

Agricultural chemicals (1) Discounts for cash sales; and (2) more price competition.

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U.S. Department of Agriculture Agricultural Cooperative Service

Agricultural Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The agency (1) helps farmers and other rural residents obtain supplies and services at lower costs and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The agency publishes research and educational materials, and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.